

**Report To:** Audit and Standards Committee

**Date:** 17 March 2020

**Report Title:** Treasury Management

**Report of:** Chief Finance Officer

**Ward(s):** All

**Purpose of report** To present details of recent Treasury Management activity.

**Officer**

**Recommendations:** To confirm to Cabinet that Treasury Management activity for the period 1 January to 29 February 2020 has been in accordance with the approved Treasury Strategies for that period.

**Reasons for recommendations:** The Council's approved Treasury Strategy Statement requires the Audit and Standards Committee to review details of Treasury Strategy transactions against the criteria set out in the Strategy and make observations to Cabinet as appropriate.

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## **1. Introduction**

- 1.1 The Council's approved Treasury Strategy Statement requires the Audit and Standards Committee to review details of Treasury Strategy transactions against the criteria set out in the Strategy and make observations to Cabinet as appropriate.
- 1.2 The Treasury Strategy Statement also requires the Audit and Standards Committee to review a formal summary report after the year end before it is considered by Council, in accordance with best practice and guidance issued by the Chartered Institute of Public Finance and Accountancy.

## **2. Treasury Management Activity**

- 2.1 The timetable for reporting Treasury Management activity in 2019/20 is shown in the table below. This takes into account the timescale for the publication of each Committee agenda and is on the basis that it is preferable to report on activity for complete months. Any extraordinary activity taking place between the close of the reporting period and the date of the Audit and Standards Committee meeting will be reported verbally at that meeting.

Meeting date	Reporting period for transactions
16 July 2019	1 March to 30 June 2019
23 September 2019	1 July to 31 August 2019
18 November 2019	1 September to 31 October 2019
20 January 2020	1 November to 31 December 2019
17 March 2020	1 January to 29 February 2020

## 2.2 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 29<sup>th</sup> February 2020 and identifies the long-term credit rating of counterparties at the date of investment. It is important to note that credit ratings are only one of the criteria that are taken into account when determining whether a potential counterparty is suitable. All of the deposits met the necessary criteria/minimum rating required for deposits.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term Rating
243419	Thurrock Borough Council	14 Jun 19	16 Mar 20	276	3,000,000	0.88	*
245020	Thurrock Borough Council	25 Feb 20	25 Mar 20	29	3,000,000	0.95	*
245120	West Berkshire Council	25 Feb 20	10 Mar 20	14	3,000,000	1.00	*
					9,000,000		

\*UK Government body and therefore not subject to credit rating

## 2.3 Fixed Term Deposits which have matured in the reporting period

Fixed term deposits that have matured during the reporting period:

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term Rating
244719	Stockport Met. Borough Council	3 Dec 19	3 Feb 20	62	5,000,000	0.68	*
244819	Cheltenham Borough Council	12 Dec 19	12 Feb 20	62	3,000,000	0.70	*
244920	Thurrock Borough Council	23 Jan 20	24 Feb 20	32	6,000,000	0.75	*
					14,000,000		

\*UK Government body and therefore not subject to credit rating

At no stage did the total amount held by any counterparty exceed the approved limit set out in the Investment Strategy. The average rate of interest earned on deposits held in the period 1 January to 29 February 2020 was 0.83%. The bank rate was 0.75% for the period.

## 2.4 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following interest bearing accounts in the period covered by this report, with the average amount held being £9.539m generating interest of approximately £0.009m.

	Balance at 29 Feb '20 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	2,000	2,304	0.40
Lloyds Bank Corporate Account	3,441	7,235	0.65

## 2.5 Use of Money Market Funds

Details of the amounts held in the two Money Market Fund (MMF) accounts used by the Council are shown below. The approved Investment Strategy allows a maximum investment of £3m in each fund, and at no time was this limit exceeded.

	Balance at 29 Feb '20 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Res. Fund	1,000	1,000	0.85
Deutsche Managed Sterling Fund	1,500	1,500	0.78

## 2.6 Treasury Bills (T-Bills)

There were no Treasury Bills held at 29 February 2020, and there was no activity in the period.

## 2.7 Secured Investments

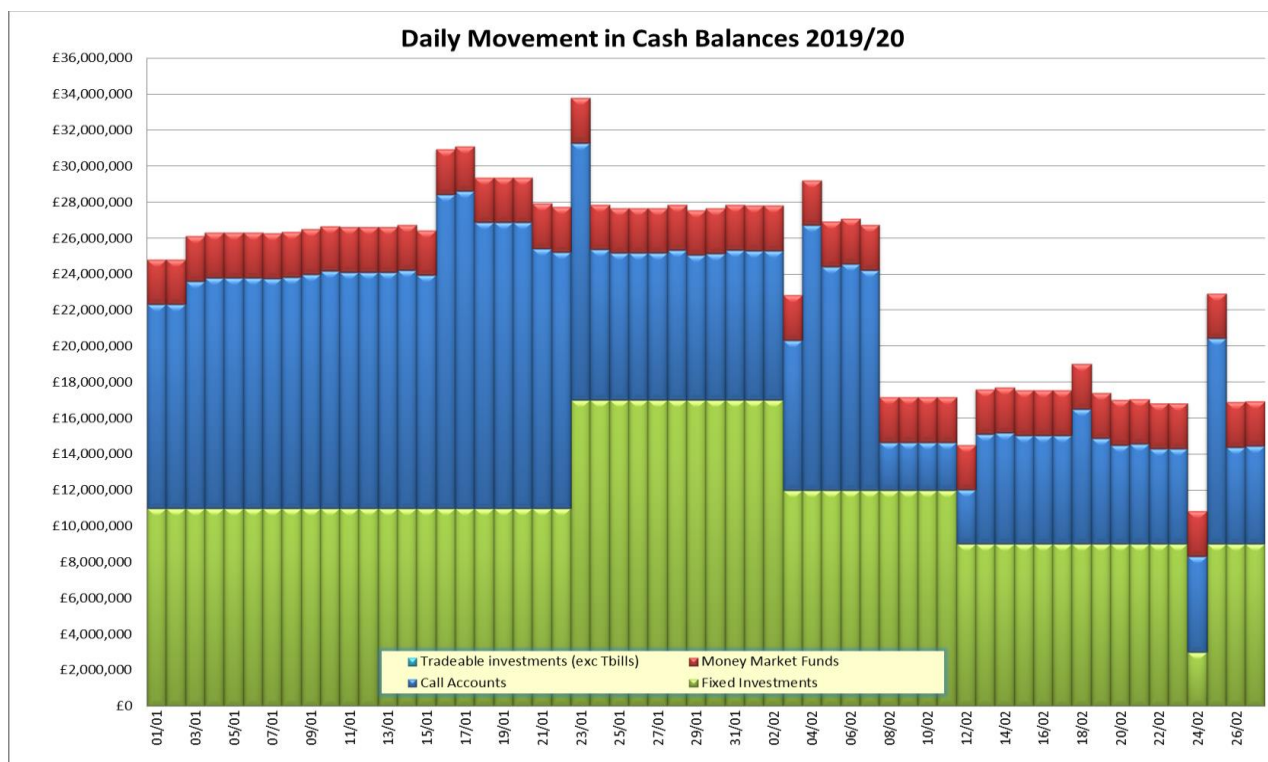
There were no Secured Investments at 29 February 2020.

## 2.8 Tradeable Investments

There were no Tradeable Investments at 29 February 2020, and there was no activity in the period.

## 2.9 Overall investment position

The chart below summarises the Council's investment position over the period 1 January to 29 February 2020. It shows the total sums invested each day as Fixed Term deposits, Treasury Bills, amounts held in Deposit accounts, Money Market Funds and Tradeable Investments.



## 2.10 Borrowing













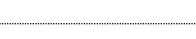


The current account with Lloyds Bank generally remained with credit limits throughout most of the period with the following exceptions:

Exceptions:

Wednesday 1 January to Friday 28 February 2020 – excess funds of between £3m and £15m. The Council's long term borrowing in the reporting period is £56.673m.

## 3. Compliance with Treasury and Prudential Limits

- 3.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.
- 3.2 As at 29 February 2020, the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

Treasury Prudential Indicators	2019/20 Estimate Indicator	29 February Indicator	RAG Status
Authorised limit for external debt (CS 4.2.2)	£117.7m	£117.7m	
Operational boundary for external debt (CS 4.2.2)	£127.7m	£127.7m	
Gross external debt (CS 4.2.2)	£117.3m	£86.0m	
Capital Financing Requirement (TMS)	£136.9m	£136.9m	
Debt vs CFR under/(over) borrowing	£19.6m	£50.9m	
<i>Investments</i>			
Investment returns expectations	0.65	0.83	
Upper limit for principal sums invested for longer than 365 days	£3m	£0m	
<i>Maturity structure of fixed rate borrowing - upper limits:</i>			
Under 12 months	75%	75%	
12 months to 2 years	75%	75%	
2 years to 5 years	75%	75%	
5 years to 10 years	100%	100%	
10 years and above	100%	100%	
Capital expenditure (CS 2.1.4)	£11.9m	£11.4m	
<i>Ratio of financing costs to net revenue stream (CS 8.1.1):</i>			
Proportion of Financing Costs to Net Revenue Stream (General Fund)	1.68%	1.68%	
Proportion of Financing Costs to Net Revenue Stream (HRA)	18.08%	18.08%	

Key: CS – 2019/20 Capital Strategy Appendix 1

#### **4. Non-treasury investments**

4.1 The Council's 'non-treasury' investment activities include loans to the Council-owned companies or the purchase of property assets for the purpose of income generation.

#### **4.2 Lewes Housing Investment Company**

Lewes Housing Investment Company (LHIC) is a wholly owned subsidiary of the Council. Incorporated in July 2017, LHIC has been set up to acquire, improve and let residential property at market rents. Although the 2018/19 Capital programme included £2.5m as potential commercial loan funding to facilitate property purchases, this facility was not drawn down and has rolled forward into 2019/20. No payments were made to, or monies received from, LHIC during 2018/19 and no amounts were owing to, or owed by, LHIC at the end of the year. There were no transactions during the period 1 March 2019 to 30 June 2019. During the period 1 July to 31 August 2019 £35.00 was drawn down. There were no transactions in the period 1 January to 29 February 2020.

#### **4.3 Aspiration Homes LLP**

Aspiration Homes LLP (AH) is a limited liability Partnership owned equally by Lewes District Council and Eastbourne Borough Council. Incorporated in June 2017, AH has been set up for the purpose of developing housing to be let at affordable rent. Although the 2018/19 Capital programme included £17.5m as potential commercial loan funding to AH to facilitate property purchases, this facility was not drawn down and has rolled forward into 2019/20.

Aspiration homes has purchased property in Western Road, Newhaven, at a total cost of £1,261,300 which completed in September 2019. There were no transactions in the period 1 January to 29 February 2020.

A working Capital facility loan of £100,000 has been agreed, at an interest rate of 2% above Base Rate. As at 31 March 2019 £10,000 of the working Capital facility loan had been drawn down. During the period 1 March 2019 to 30 June 2019, £35,000 has been drawn down against the loan facility. There were no transactions in the period 1 January to 29 February 2020.

#### **5. Update Economic Commentary – Arlingclose (Appendix A)**

5.1 Whilst the UK growth is rebounding slightly, the Eurozone and China are starting to flag and have the potential to be a drag on the UK economy later in the year. The full effect of the novel coronavirus will become clearer. However, it appears to be having a profound effect on a plethora of industries.

5.2 Clearly, tourism has taken the brunt of the decrease that the moment, notably Chinese visitors to Hong Kong has decreased by 99. Depending on each industries supply chains, we can expect to see a slowdown in growth namely car parts made in China but assembled in Germany, winter clothes collections currently not being produced may not be available next winter and British manufacturing, particularly JCB implementing a 32 hour working week in response to a shortage of parts. In Europe, Economic confidence survey suggests a slight decrease in confidence. However still fairly robust, and over in the US, GDP growth for the quarter is an annualised rate of 2.2 % (increased from 2.1 least quarter).

## **6. Public Works Loan Board (PWLB) – Change of Governance**

- 6.1 Local government plays a major role in the construction and maintenance of local infrastructure and other capital assets in line with local priorities. The PWLB function supports this activity by on-lending government borrowing from the capital markets to local authorities. The term 'PWLB' has historically been used to describe the statutory body of the Public Works Loan Commissioners. This Board of Commissioners once used to review individual loan applications, but has not done so since the introduction of the prudential regime in 2004, under which local authorities are responsible for their own spending and borrowing decisions.
- 6.2 HM Treasury consulted in 2016 on a proposal to keep the lending function, but reform its governance by abolishing the statutory body of Public Works Loan Commissioners and transferring their power to issue loans to HM Treasury. The rationale was that, while the role of the PWLB Commissioners was no longer required, the functions were still needed and transferring them to HM Treasury would align policy and operational responsibilities. This proposal found broad support, so government resolved to make this change, using powers set out in the Public Bodies Act 2011.
- 6.3 Parliament has now legislated to make the reform set out in the consultation, with the effect that the powers, duties, assets and liabilities were transferred to HM Treasury on 25 February 2020. No action is required by the Council as a result of this change as the day to day operation of PWLB loans will continue to be managed by the Debt Management Office.

## **7. Financial Implications**

- 7.1 All relevant implications are referred to in the above paragraphs.

## **8. Risk Management Implications**

- 8.1 The risk management implication associated with this activity is explained in the approved Treasury Management Strategy. No additional implications have arisen during the period covered by this report.

## **9. Equality Screening**

- 9.1 This is a routine report for which detailed Equality Analysis is not required to be undertaken.

## **10. Legal Implications**

- 10.1 None arising from this report.

## **11 Appendices**

- 11.1 Appendix A – Economic outlook

## **Background Papers**

Treasury Strategy Statements 2019/2020 and 2021/2022